Verizon Communications
1300 I Street NW, Suite 400W
Washington, DC 20005

April 18, 2002

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th St., S.W. – Portals
Washington, DC 20554

RE: Application by Verizon-New Jersey Inc. for Authorization To Provide In-Region, InterLATA Services in State of New Jersey, Docket No. 02-67 - ***REDACTED***

Dear Ms. Dortch:

Yesterday, P. Garzillo, C. Cotes, T. Mazrotti, J. Gansert, K. Zacharia, S. Collins, M. Peduto, M. Prosini, C. Ronis and the undersigned represented Verizon in a meeting with R. Lerner, D. Shetler, J. Swift, R. Kwiatkowski and N. Guendelsberger of the Wireline Competition Bureau to discuss pricing issues in New Jersey. The handouts distributed during the meeting are attached. Handout 2 contains proprietary information and has been redacted A confidential version with this handout is being filed as well. The twenty-page limit does not apply as set forth in DA 02-718. If you have any questions, please do not hesitate to call me.

Sincerely,

Clint E. Odom

Clint E. Odom

Attachments

cc: A. Johns
B. Olson
D. Shetler
R. Lerner
J. Swift
R. Kwiatkowski
N. Guendelsberger
S. Pie

REDACTED – FOR PUBLIC INSPECTION

HANDOUT 1

	2000			2001			% Change		
	Jan-June	July-Dec	Total	Jan-June	July-Dec	Total	Jan-June	July-Dec	Total
NY MOUs	141,262,000,000	139,562,000,000	280,824,000,000	142,465,000,000	140,412,000,000	282,877,000,000	0.9%	0.6%	0.7%
NY Lines	12,282,884	12,346,511	12,298,142	12,310,923	12,136,656	12,187,502	0.2%	-1.7%	-0.9%
MOUs/Line	1,917	1,884	1,903	1,929	1,928	1,934	0.6%	2.3%	1.6%
NJ MOUs	73,366,000,000	74,348,000,000	147,714,000,000	75,867,000,000	73,857,000,000	149,724,000,000	3.4%	-0.7%	1.4%
NJ Lines	6,929,176	7,062,743	6,966,700	7,089,632	7,029,216	7,039,851	2.3%	-0.5%	1.1%
MOUs/Line	1,765	1,754	1,767	1,784	1,751	1,772	1.1%	-0.2%	0.3%

HANDOUT 2

Verizon Meeting with FCC

April 17, 2002

UNE Rates in New Jersey are TELRIC-Compliant

- Rates were set during an extensive TELRIC proceeding, involving AT&T, WorldCom, numerous other CLECs, and the Ratepayer Advocate.
  - Parties submitted prefiled written testimony.
  - Verizon responded to about 750 discovery requests, which, including all subparts, totaled approximately 1100 questions.
  - Board conducted 17 days of hearings, plus one day of deposition testimony entered into the record.

UNE Rates in New Jersey are TELRIC-Compliant (cont.)

- This proceeding resulted in a 279-page *Final Order* thoroughly analyzing the claims of the parties and explaining Board's decisions. Among other things, Board required Verizon to:
  - Modify the switch discount mix to assume 79.4% new switches;
  - Increase fill factors to 53% for distribution cable, 75% for copper feeder, and 77.5% for fiber feeder;
  - Reduce travel times, eliminate certain tasks, and make other changes to the NRCM;
  - Reduce weighted average cost of capital to 8.82%; and
  - Adopt FCC depreciation lives.

New Jersey Hot Cut NRCs Are TELRIC-Compliant

- The New Jersey Board and the New York Public Service Commission both adopted TELRIC-compliant hot cut rates that are significantly higher than the $35.00 rate Verizon has agreed to charge in New Jersey ($159.76 and $185.19, respectively).

- The hot cut time estimates Verizon used to develop its hot cut rates are comparable to the time estimates proposed in New York. The New York Commission carefully scrutinized Verizon's time estimates and its non-recurring methodology and found, with some minor modifications, that they complied with TELRIC.

New Jersey Hot Cut NRCs Are TELRIC-Compliant (cont.)

- Verizon's $35.00 charge is far below Verizon's forward-looking costs.
  - Verizon incurs almost $35 in costs ($33.42) simply to ensure that the CLEC is ready to proceed with the hot cut.
  - Verizon incurs another $19.69 just to run and connect the jumper between the loop and the CLEC's port.
  - The work times used to derive these calculations are comparable to the work times approved by the New York PSC, as demonstrated in the Garzillo/Prosini Supplemental Declaration.
  - This analysis does not include all the other physical activities and coordination performed by Verizon.

New Jersey Hot Cut NRCs Are TELRIC-Compliant (cont.)

- It is inappropriate to compare hot cut rates in place in other states.
  - Verizon's early cost studies were based on limited experience and failed to account for all the activities required to perform a hot cut, including the activities the CLECs demanded during the industry hot cut collaborations.
  - Verizon has recently updated its cost studies and has proposed hot cut rates that are in line with the hot cut rates approved by the New Jersey Board and the New York Public Service Commission.

Verizon's Method of Recovering Vertical Features in Usage-Sensitive Rates Is TELRIC-Compliant

- The Board made the policy judgment to place the costs for vertical features and other "getting started" costs in the switching usage rates. The Commission should not disturb the Board's rate structure policy decisions.

- Features rely heavily on switch processor time and therefore are properly recovered in the usage-sensitive rate. Processor must determine whether feature is activated on a particular account and initiate the feature when appropriate.

- For example, when an end user with "call waiting" receives another call, it is the processor that:
  - Determines that the called party is on the line;
  - Checks to see whether the called party has the call waiting feature;
  - Sends a "ring" rather than a busy signal to the caller; and
  - Sends the call waiting beep to the called party.

Verizon's Method of Recovering Vertical Features in Usage-Sensitive Rates Is TELRIC-Compliant (cont.)

- Recovering vertical features and getting started costs in the usage-sensitive rate is consistent with cost causation principles and does not overstate Verizon's costs.
  - Switch resources that are shared among users must be engineered based on expected traffic so that all users are adequately served and so that one heavy user cannot ruin the service afforded to others.
  - The fact that Verizon has sized its switch appropriately and incurs vertical feature and getting started costs up front does not mean that the costs are not usage-sensitive; if Verizon had expected lower usage levels, it would have sized its switches differently.

Verizon's Service Order Non-Recurring Charges for Subsequent Feature Changes Are TELRIC-Compliant

- Verizon has not been able to identify any place in the New Jersey UNE cost proceeding record where AT&T or any other party criticized Verizon's non-recurring service order charge for subsequent feature changes.

- Feature change NRCs, like other rates, were established during an extensive TELRIC proceeding involving AT&T, WorldCom, numerous other CLECs, and RPA.

- The New York Public Service Commission, after carefully reviewing Verizon's time estimates and non-recurring cost methodology, approved a service order non-recurring charge for subsequent feature changes that is ***higher*** than the New Jersey rate ($9.01 v. $7.71).

Verizon's Service Order Non-Recurring Charges for Subsequent Feature Changes Are TELRIC-Compliant (cont.)

- In fact, the New Jersey time estimates for subsequent feature changes are identical to the time estimates used in the New York cost studies and approved by the New York Commission.

	New Jersey	New York
Total Approved Time	12.47 minutes	12.47 minutes
Labor Rate (non-loaded, $/minute)	$0.56	$0.67
Non-Loaded Labor Cost	$6.98	$8.35
TOTAL (Loaded Labor) Cost	$7.71	$9.01

Verizon's Service Order Non-Recurring Charges for Subsequent Feature Changes Are TELRIC-Compliant (cont.)

- The $7.71 New Jersey rate reflects real costs Verizon incurs to change features after an initial order. For example, Verizon must correct manually the following types of CLEC errors:
  - Requests to remove a feature that is not in place on a given account.
  - Requests to install a feature on an account where that feature already exists.
  - Requests to install a feature not offered in a given Central Office.
  - Requests to install features that conflict with features already in place on the given account.
  - Requests for the installation of a feature that cannot be added without the addition of another account.
- AT&T's analogy to UNE-P orders is inapt. Subsequent feature change orders do not experience the same level of mechanization and flow through as UNE-P orders.

Busy Hour Annualization Issues

- Verizon's switch costs do account for traffic on the weekends and holidays. In New Jersey, Verizon computes a Busy Hour to Day Ratio ("BHDR") by measuring traffic in (a) the busy hour and (b) the entire day for 5 consecutive business days in four separate busy periods (a total of 20 days), and determining the relationship between the two.

- Verizon then divides the BHDR (which is 0.0747 in New Jersey) by 251 to compute the Busy Hour to Annual Ratio ("BHAR").

- The BHAR is then multiplied against the statewide average busy hour/busy season per-minute costs developed by SCIS using engineering inputs regarding busy hour/busy season traffic.

Busy Hour Annualization Issues (cont.)

- Verizon uses 251 days to compute the BHAR rather than a greater number of days because the BHAR is multiplied against a figure representing a busy hour during the busy season, rather than during an average business day or an average day. In this way, Verizon is accounting for weekends and holidays.

- WorldCom's claim that its recommendation to use 308 days is conservative because recent data supports the use of ******** days is flawed.

  - WorldCom took the data it cites from a study of trunk usage. This study uses *average* usage, which we would expect to be multiplied over a greater number of effective days to compute annual usage.

The NJ DUF Rates Are TELRIC-Compliant

- Verizon has not been able to identify any place in the New Jersey UNE cost proceeding record where AT&T or any other party criticized Verizon's DUF rates.

- Verizon's DUF rates are TELRIC-compliant. Verizon developed its DUF rates by examining the forward-looking computer processing time and labor costs associated with preparing and formatting the DUF record, transmitting the data to the CLECs and resolving any questions or problems that might arise.

The NJ DUF Rates Are TELRIC-Compliant (cont.)

- Verizon's New Jersey DUF rates are in line with the DUF rates Verizon recently proposed in the Pennsylvania, Maryland and Virginia cost proceedings; Verizon's current PA rates, cited by AT&T, are based on an outdated cost study which, among other things, significantly overstated DUF demand.

- Verizon properly spreads the costs associated with CLEC DUF requests across CLEC demand for the DUF. Verizon also properly spreads across *all* records the common activities associated with processing all types of records, including ILEC and IXC records.

Benchmarking

- New Jersey switching rates benchmark to the New York rates under a variety of different usage assumptions.

- The New Jersey non-loop rates benchmark to New York using state-specific DEM usage and the FCC's standard assumptions for allocating minutes among call types.

State	Statewide Model Cost	Statewide Average Rate (Non-Loop)	Cost Ratio to New York	Rate Ratio to New York	Compliant?
NY	$3.50	$5.51	100%	100%	--
NJ	$3.55	$4.95	101%	90%	Y

Benchmarking (cont.)

- The New Jersey non-loop rates benchmark to New York using state-specific DEM usage and Verizon's state-specific assumptions for allocating minutes among call types.

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Benchmarking (cont.)

- The New Jersey non-loop rates benchmark to New York using New York DEM usage for both states and the FCC's standard assumptions for allocating minutes among call types.

State	Statewide Model Cost (Non-Loop)	Statewide Average Rate (Non-Loop)	Cost Ratio to New York	Rate Ratio to New York	Compliant?
NY	$3.50	$5.51	100%	100%	--
NJ	$3.55	$5.27	101%	96%	Y

Benchmarking (cont.)

- The New Jersey non-loop rates benchmark to New York using New Jersey DEM usage for both states and the FCC's standard assumptions for allocating minutes among call types.

State	Statewide Model Cost (Non-Loop)	Statewide Average Rate (Non-Loop)	Cost Ratio to New York	Rate Ratio to New York	Compliant?
NY	$3.50	$5.31	100%	100%	--
NJ	$3.55	$4.95	101%	93%	Y

Benchmarking (cont.)

- The combined New Jersey loop and non-loop rates also benchmark to the equivalent rates in New York using state-specific DEM usage and the FCC's standard assumptions for allocating minutes among call types.

State	Statewide Model Cost	Statewide Average Rate	Cost Ratio to New York	Rate Ratio to New York	Compliant?
NY	$13.87	$17.00	100%	100%	--
NJ	$15.54	$14.47	112%	85%	Yes

- As the FCC has held, it is appropriate to consider the non-loop elements together. Different states make different policy judgments regarding which costs to place in the port rate and which to recover in switching usage rates. Combining the two is the only way to achieve a meaningful comparison of non-loop costs.